

Davis County Hospital

Financial Report
June 30, 2011

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Independent Auditor's Report

To the Board of Trustees
Davis County Hospital
Bloomfield, Iowa

We have audited the accompanying balance sheets of Davis County Hospital (Hospital), as of June 30, 2011 and 2010 and the related statements of revenue, expenses and changes in net assets and cash flows for the years then ended. We have also audited the balance sheets of Davis County Hospital Endowment Foundation (Foundation), a discretely presented component unit, as of June 30, 2011 and 2010, and the related statements of revenue, expenses and changes in net assets and cash flows for the years then ended. These financial statements are the responsibility of the Hospital and the Foundation's management. Our responsibility is to express opinions on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. The financial statements of Davis County Hospital Endowment Foundation were not audited in accordance with *Government Auditing Standards*. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Davis County Hospital and Davis County Hospital Endowment Foundation, a discretely presented component unit, as of June 30, 2011 and 2010, and the results of their operations and their cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our reports dated November 23, 2011 and October 11, 2010 for the years ended June 30, 2011 and 2010, respectively, on our consideration of Davis County Hospital's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, and other matters. The purpose of those reports is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. Those reports are an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The accompanying management's discussion and analysis on pages 2 through 6 and required supplementary information on pages 28 and 29 are not a required part of the basic financial statements but are supplementary information required by the accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

McGladrey & Pullen, LLP

Davenport, Iowa
November 23, 2011

Davis County Hospital

Management's Discussion and Analysis Years Ended June 30, 2011 and 2010

Introduction

This management's discussion and analysis of the financial performance of Davis County Hospital (Hospital) provides an overview of the Hospital's financial activities for the years ended June 30, 2011 and 2010. It should be read in conjunction with the accompanying financial statements of the Hospital.

Davis County Hospital Endowment Foundation (Foundation) is a legally separate, tax exempt, discretely presented component unit of Davis County Hospital. The Foundation was formed to, among other things, raise funds for the general welfare, maintenance and improvement of the Hospital. The Board of the Foundation is self-perpetuating and consists of citizens of Bloomfield, Iowa and the surrounding area. Although the Hospital does not control the timing or amount of receipts from the Foundation, the majority of resources, or income thereon, which the Foundation holds are contributed to the Hospital. Because these resources held by the Foundation have historically been for the benefit of the Hospital, the Foundation is considered a component unit of the Hospital and is discretely presented in the Hospital's financial statements. Questions about this report and requests for additional financial information should be directed to Hospital Administration by calling 641.664.2145.

Financial Highlights

- Cash and cash equivalents increased between 2011 and 2010 by \$464,272 or 14% and increased between 2010 and 2009 by \$936,050 or 41%.
- The Hospital's net assets decreased \$205,943 or 2% in 2011 and increased \$530,808 or 5% in 2010.
- The Hospital reported an operating loss of \$257,144 in 2011 and an operating loss of \$79,059 in 2010.

Using This Annual Report

The Hospital's financial statements consist of three statements: a balance sheet; a statement of revenue, expenses and changes in net assets; and a statement of cash flows. These statements provide information about the activities of the Hospital, including resources held by the Hospital but restricted for specific purposes by creditors, contributors, grantors or enabling legislation. The Hospital is accounted for as a business-type activity and presents its financial statements using the economic resources measurement focus and the accrual basis of accounting.

Balance Sheet and Statement of Revenue, Expenses and Changes in Net Assets

One of the most important questions asked about any Hospital's finances is "Is the Hospital as a whole better or worse off as a result of the year's activities?" The balance sheet and the statement of revenue, expenses and changes in net assets report information about the Hospital's resources and its activities in a way that helps answer this question. These statements include all restricted and unrestricted assets and all liabilities using the accrual basis of accounting. Using the accrual basis of accounting means that all of the current year's revenue and expenses are taken into account regardless of when cash is received or paid.

These two statements report the Hospital's net assets and changes in them. The Hospital's total net assets – the difference between assets and liabilities – is one measure of the Hospital's financial health or financial position. Over time, increases or decreases in the Hospital's net assets are an indicator of whether its financial health is improving or deteriorating. Other nonfinancial factors, such as changes in the Hospital's patient base, changes in legislation and regulations, measures of the quantity and quality of services provided to its patients and local economic factors, should also be considered to assess the overall financial health of the Hospital.

Davis County Hospital

Management's Discussion and Analysis Years Ended June 30, 2011 and 2010

Statement of Cash Flows

The statement of cash flows reports cash receipts, cash payments and net changes in cash and cash equivalents resulting from four defined types of activities. It provides answers to such questions as where did cash come from, what was cash used for and what was the change in cash and cash equivalents during the reporting period.

The Hospital's Net Assets

The Hospital's net assets are the difference between its assets and liabilities reported in the balance sheet. The Hospital's net assets decreased by \$205,943 or 2% in 2011 compared to 2010 as shown in Table 1.

Table 1: Assets, Liabilities and Net Assets

	<u>2011</u>	<u>2010</u>	<u>2009</u>
Assets:			
Patient accounts receivable, net	\$ 2,380,711	\$ 2,583,896	\$ 2,171,254
Other current assets	7,158,631	6,079,585	4,441,539
Capital assets, net	17,156,249	15,593,940	8,513,603
Other noncurrent assets	1,970,236	3,214,575	3,241,936
Total assets	\$ 28,665,827	\$ 27,471,996	\$ 18,368,332
Liabilities:			
Current liabilities	\$ 4,406,786	\$ 3,832,412	\$ 2,685,259
Other postemployment benefits	183,058	121,917	57,882
Long-term debt	13,567,831	12,803,572	5,441,904
Total liabilities	18,157,675	16,757,901	8,185,045
Net assets:			
Invested in capital assets, net of related debt	2,535,751	2,880,033	2,665,396
Restricted	2,531,251	3,275,497	1,318,608
Unrestricted	5,441,150	4,558,565	6,199,283
Total net assets	10,508,152	10,714,095	10,183,287
Total liabilities and net assets	\$ 28,665,827	\$ 27,471,996	\$ 18,368,332

Year ended June 30, 2011: In fiscal year 2011, the total assets increased by \$1,193,831 or 4%, which was caused primarily by an increase in capital assets due to the implementation of a new computer software system and electronic medical record system. In fiscal year 2011, total liabilities increased by \$1,399,774 or 8%, which was caused primarily by the net increase in debt of \$1,076,626, consisting of borrowings to finance the computer software system and electronic medical record system, partially offset by regular principal payments.

Year ended June 30, 2010: In fiscal year 2010, total assets increased by \$9,103,664 or 30%, which was caused primarily by the increase in capital assets of \$7,080,337 due to the renovations to the facility and unspent bond proceeds. In fiscal year 2010, total liabilities increased \$8,572,856 or 105%, which was caused primarily by the increase in debt of \$7,695,665 due to the borrowing of funds to finance the renovations to the facility.

Davis County Hospital

**Management's Discussion and Analysis
Years Ended June 30, 2011 and 2010**

Operating Results and Changes in the Hospital's Net Assets

In 2011, the Hospital's net assets decreased by \$205,943 or 2% as shown in Table 2. This decrease is made up of several different components.

Table 2: Operating Results and Changes in Net Assets

	2011	2010	2009
Operating revenue:			
Net patient service revenue	\$ 18,442,436	\$ 16,805,651	\$ 15,884,969
Other operating revenue	471,981	532,398	423,311
Total operating revenue	18,914,417	17,338,049	16,308,280
Operating expenses:			
Salaries, wages and employee benefits	9,900,786	9,188,572	8,491,512
Purchased services and medical professional fees	2,516,371	2,512,912	2,352,770
Depreciation and amortization	1,682,901	1,106,110	1,015,309
Other operating expenses	5,071,503	4,609,514	4,214,169
Total operating expenses	19,171,561	17,417,108	16,073,760
Operating income (loss)	(257,144)	(79,059)	234,520
Nonoperating revenue (expenses):			
County taxes	757,861	746,918	707,742
Interest expense	(734,069)	(344,490)	(332,350)
Interest income	73,025	89,936	125,913
Gain (loss) on sale of capital assets	(90,016)	59,505	62,149
Total nonoperating revenue	6,801	551,869	563,454
Excess revenue over (under) expenses before capital grants and contributions	(250,343)	472,810	797,974
Capital grants and contributions	44,400	57,998	998,744
Increase (decrease) in net assets	\$ (205,943)	\$ 530,808	\$ 1,796,718

Davis County Hospital

Management's Discussion and Analysis Years Ended June 30, 2011 and 2010

Operating Income or Loss

The first component of the overall change in the Hospital's net assets is its operating income or loss, generally the difference between net patient service and other operating revenue and the expenses incurred to perform those services. In 2011 and 2010 the Hospital reported an operating loss and in 2009 the Hospital reported operating income. The Hospital levies property taxes to provide sufficient resources to enable the facility to serve patients.

The operating income for 2011 decreased by \$178,085 or 225% as compared to 2010. The primary components causing the decrease in operating income are as follows:

- Although the total operating revenue increased by \$1,576,368 or 9.09%, the total operating expenses increased by \$1,754,453 or 10.07%. These increases in expenses were due to an increase in the volume of more expensive procedures and server hosting fees in conjunction with a new computer software system with electronic medical record system.

The operating income for 2010 decreased by \$316,223 or 107% as compared to 2009. The primary components causing the decrease in the operating loss are as follows:

- Although the total operating revenue increased by \$1,027,125 or 6.27%, the total operating expenses increased by \$1,343,248 or 8.36%. These increases in expenses were due to the addition of an internal medicine physician, wage increases, contracted emergency room physician coverage cost and an increase in the volume of more expensive procedures.

Nonoperating Revenue and Expenses

Nonoperating revenue and expenses consist primarily of property taxes levied by the Hospital, interest income, interest expense and gains (losses) on the sale of capital assets. Nonoperating revenue for 2011 decreased by \$545,068 or 99% compared to 2010. Nonoperating revenue and expenses for 2010 decreased by \$11,585 or 2% compared to 2009. The decrease in 2011 is primarily due to the Hospital recognizing a full year of interest expense related to the Series 2009 Bonds issued during fiscal year 2010, and losses on the sale of capital assets.

The Hospital's Cash Flows

Year ended June 30, 2011: The Hospital's cash decreased by \$536,805 as compared to 2010. The primary reason for the decrease in cash is due to an increase in long-term debt principal and interest payments, an increase in supply cost and an increase in wages and benefits. Cash received from patients and third parties increased by \$2,040,612 or 12.45% as compared to 2010.

Year ended June 30, 2010: The Hospital's cash increased by \$3,633,777 as compared to 2009. The primary reason for the increase in cash is due to a bond issue to finance a renovation project which increased the Hospital's long-term debt and capital assets. Cash received from patients and third parties also increased by \$521,111 or 3.28% as compared to 2009.

Davis County Hospital

Management's Discussion and Analysis Years Ended June 30, 2011 and 2010

Capital Asset and Debt Administration

Capital Assets

June 30, 2011: At the end of 2011, the Hospital had \$17,156,249 invested in capital assets, net of accumulated depreciation, as described in Note 5 to the financial statements. In 2011, the Hospital purchased new capital assets totaling \$3,420,540 consisting primarily of a new computer software system with an electronic medical record system and a digital mammography machine.

June 30, 2010: At the end of 2010, the Hospital had \$15,593,940 invested in capital assets, net of accumulated depreciation, as described in Note 5 to the financial statements. In 2010, the Hospital purchased new capital assets totaling \$8,368,801 consisting primarily of renovations to the facility.

Debt

June 30, 2011: At June 30, 2011, the Hospital had \$14,620,498 in hospital revenue bonds and capital leases outstanding. The Hospital entered into new debt obligations for the new computer software system with an electronic medical record in the amount of \$1,544,280. Also, the Hospital entered into new debt obligations for medical equipment in the amount of \$376,000.

June 30, 2010: At June 30, 2010, the Hospital had \$13,543,872 in hospital revenue bonds and capital leases outstanding. The Hospital issue \$7,195,000 of new revenue bonds in 2010 to finance renovations to the facilities.

Contacting the Hospital's Financial Management

This financial report is designed to provide our patients, suppliers, taxpayers and creditors with a general overview of the Hospital's finances and to show the Hospital's accountability for the money it receives. Questions about this report and requests for additional financial information should be directed to the Hospital Administration by calling 641.664.2145.

Davis County Hospital

Balance Sheets
June 30, 2011 and 2010

Assets	Hospital		Component Unit (Foundation)	
	2011	2010	2011	2010
Current Assets:				
Cash and cash equivalents	\$ 3,698,697	\$ 3,234,425	\$ 37,670	\$ 41,547
Assets limited as to use, restricted by bond agreement	1,204,787	970,655	-	-
Certificates of deposit	671,733	657,971	-	-
Receivables:				
Patient, net	2,380,711	2,583,896	-	-
Property taxes receivable	955,820	751,442	-	-
Other	62,747	34,112	-	-
Inventories	367,481	346,898	-	-
Prepaid expenses	85,366	84,082	-	-
Estimated amounts due from third-party payors	112,000	-	-	-
Total current assets	9,539,342	8,663,481	37,670	41,547
Assets Limited as to Use:				
Board-designated for capital acquisitions	499,329	752,995	-	-
Restricted by bond agreement	1,435,050	2,276,858	-	-
Donor restricted	1,096,201	998,639	67,215	60,453
	3,030,580	4,028,492	67,215	60,453
Less portion required for current liabilities	1,204,787	970,655	-	-
	1,825,793	3,057,837	67,215	60,453
Capital Assets:				
Nondepreciable	324,493	412,397	-	-
Depreciable, net	16,831,756	15,181,543	-	-
	17,156,249	15,593,940	-	-
Other Assets, deferred financing costs	144,443	156,738	-	-
	\$ 28,665,827	\$ 27,471,996	\$ 104,885	\$ 102,000

See Notes to Basic Financial Statements.

Liabilities and Net Assets	Hospital		Component Unit (Foundation)	
	2011	2010	2011	2010
Current Liabilities:				
Current maturities of long-term debt	\$ 1,052,667	\$ 740,300	\$ -	\$ -
Accounts payable	1,120,720	846,074	-	-
Accrued expenses:				
Salaries, wages and payroll taxes	413,733	376,284	-	-
Paid leave	581,175	562,293	-	-
Interest	257,521	233,700	-	-
Other	25,150	222,319	-	-
Estimated amounts due to third-party payors	-	100,000	-	-
Deferred revenue for succeeding year property taxes	955,820	751,442	-	-
Total current liabilities	4,406,786	3,832,412	-	-
Other Postemployment Benefits	183,058	121,917	-	-
Long-Term Debt, less current maturities	13,567,831	12,803,572	-	-
Total liabilities	18,157,675	16,757,901	-	-

Commitments and Contingencies
(Notes 6 and 7)

Net Assets:

Invested in capital assets, net of related debt	2,535,751	2,880,033	-	-
Restricted:				
Restricted by bond agreement	1,435,050	2,276,858	-	-
Restricted by donor for specific operating activities	1,096,201	998,639	67,215	60,453
Unrestricted	5,441,150	4,558,565	37,670	41,547
Total net assets	10,508,152	10,714,095	104,885	102,000
	\$ 28,665,827	\$ 27,471,996	\$ 104,885	\$ 102,000

Davis County Hospital

**Statements of Revenue, Expenses and Changes in Net Assets
Years Ended June 30, 2011 and 2010**

	Hospital		Component Unit (Foundation)	
	2011	2010	2011	2010
Operating revenue:				
Net patient service revenue	\$ 18,442,436	\$ 16,805,651	\$ -	\$ -
Other	471,981	532,398	23,373	27,746
Total operating revenue	18,914,417	17,338,049	23,373	27,746
Operating expenses:				
Salaries and wages	7,744,843	7,188,468	-	-
Employee benefits	2,155,943	2,000,104	-	-
Purchased services and medical professional fees	2,516,371	2,512,912	-	-
Supplies and other	2,511,482	2,502,344	20,488	28,726
General services	1,046,306	851,437	-	-
Administrative services	1,394,145	1,159,759	-	-
Depreciation and amortization	1,682,901	1,106,110	-	-
Insurance	119,570	95,974	-	-
Total operating expenses	19,171,561	17,417,108	20,488	28,726
Operating income (loss)	(257,144)	(79,059)	2,885	(980)
Nonoperating income (expense):				
Tax revenue	757,861	746,918	-	-
Interest income	73,025	89,936	-	-
Interest expense	(734,069)	(344,490)	-	-
Gain (loss) on sale of capital assets	(90,016)	59,505	-	-
Total nonoperating revenue	6,801	551,869	-	-
Excess of revenue over (under) expenses before capital grants and contributions	(250,343)	472,810	2,885	(980)
Capital grants and contributions	44,400	57,998	-	-
Increase (decrease) in net assets	(205,943)	530,808	2,885	(980)
Net assets:				
Beginning	10,714,095	10,183,287	102,000	102,980
Ending	\$ 10,508,152	\$ 10,714,095	\$ 104,885	\$ 102,000

See Notes to Basic Financial Statements.

Davis County Hospital

Statements of Cash Flows Years Ended June 30, 2011 and 2010

	Hospital		Component Unit (Foundation)	
	2011	2010	2011	2010
Cash Flows from Operating Activities:				
Cash received from patients and third parties	\$ 18,433,621	\$ 16,393,009	\$ -	\$ -
Cash paid to suppliers	(7,564,909)	(6,984,276)	(20,488)	(28,726)
Cash paid to employees	(9,980,483)	(8,799,292)	-	-
Other receipts and payments, net	471,981	532,398	23,373	27,746
Net cash provided by (used in) operating activities	1,360,210	1,141,839	2,885	(980)
Cash Flows Provided by Noncapital Financing Activities, property taxes received				
	757,861	746,918	-	-
Cash Flows from Capital and Related Financing Activities:				
Principal payments on long-term debt, including capital lease obligations	(858,185)	(411,032)	-	-
Proceeds from long-term debt	360,000	7,105,062	-	-
Payments of bond issuance costs	-	(104,084)	-	-
Interest paid on long-term debt	(710,248)	(217,076)	-	-
Proceeds from sale of capital assets	47,237	60,000	-	-
Purchase of capital assets	(1,594,178)	(7,013,214)	-	-
Capital grants and contributions	44,400	657,998	-	-
Net cash provided by (used in) capital and related financing activities	(2,710,974)	77,654	-	-
Cash Flows from Investing Activities:				
Interest income	73,025	89,936	-	-
Proceeds from (purchases of) assets limited as to use, net	(16,927)	1,577,430	-	-
Net cash provided by investing activities	56,098	1,667,366	-	-
Increase (decrease) in cash and cash equivalents	(536,805)	3,633,777	2,885	(980)
Cash and cash equivalents:				
Beginning, including assets limited as to use Hospital 2011 \$4,017,071; 2010 \$1,319,344; Foundation 2011 \$60,453; 2010 \$68,567	7,251,496	3,617,719	102,000	102,980
Ending, including assets limited as to use Hospital 2011 \$3,015,994; 2010 \$4,017,071; Foundation 2011 \$67,215; 2010 \$60,453	\$ 6,714,691	\$ 7,251,496	\$ 104,885	\$ 102,000

(Continued)

Davis County Hospital

**Statements of Cash Flows (Continued)
Years Ended June 30, 2011 and 2010**

	Hospital		Component Unit (Foundation)	
	2011	2010	2011	2010
Reconciliation of Operating Income (Loss) to Net				
Cash Provided by (Used in) Operating Activities:				
Operating income (loss)	\$ (257,144)	\$ (79,059)	\$ 2,885	\$ (980)
Adjustments to reconcile operating income (loss) to net cash provided by (used in) operating activities:				
Depreciation and amortization	1,682,901	1,106,110	-	-
Changes in assets and liabilities:				
(Increase) decrease in patient accounts receivable, net	203,185	(412,642)	-	-
(Increase) in receivables	(28,635)	(13,191)	-	-
(Increase) in inventories	(20,583)	(7,382)	-	-
(Increase) in prepaid expenses	(1,284)	(32,705)	-	-
Increase (decrease) in accounts payable and accrued liabilities	(6,230)	580,708	-	-
Due to third-party payors	(212,000)	-	-	-
Net cash provided by (used in) operating activities	\$ 1,360,210	\$ 1,141,839	\$ 2,885	\$ (980)

Supplemental Disclosures of Noncash Investing and Financing Activities:

Capital lease obligation incurred for acquisition of capital assets	\$ 1,560,280	\$ 987,570	\$ -	\$ -
(Decrease) increase in accounts payable related to construction in progress	(201,179)	161,033	-	-

See Notes to Basic Financial Statements.

Davis County Hospital

Notes to Basic Financial Statements

Note 1. Nature of Business and Significant Accounting Policies

Nature of business:

Davis County Hospital (Hospital) is a county public hospital organized under Chapter 347 of the Code of Iowa. The Board of Trustees is elected by voters of Davis County. The Hospital primarily earns revenue by providing inpatient, outpatient and emergency care services to patients. The Hospital is exempt from income taxes as a political subdivision of the State of Iowa.

Davis County Hospital Endowment Foundation (Foundation) is a legally separate, tax exempt, discretely presented component unit of Davis County Hospital. The Foundation was formed to, among other things, raise funds for the general welfare, maintenance and improvement of the Hospital. The Board of the Foundation is self-perpetuating and consists of citizens. Although the Hospital does not control the timing or amount of receipts from the Foundation, the majority of resources, or income thereon that the Foundation holds are contributed to the Hospital. Because these resources held by the Foundation have historically been for the benefit of the Hospital, the Foundation is considered a component unit of the Hospital and is discretely presented in the Hospital's financial statements. The Foundation has a June 30 fiscal year-end and is a 501(c)(3) not-for-profit organization.

Significant accounting policies:

Accrual basis of accounting: The accrual basis of accounting is used by the Hospital and Foundation. Under the accrual basis of accounting, revenue is recognized when earned and expenses are recognized when the liability has been incurred.

Accounting pronouncements: The Hospital has elected to apply all applicable Governmental Accounting Standard Board (GASB) Pronouncements as well as the following pronouncements issued on or before November 30, 1989, unless those pronouncements conflict with or contradict GASB Pronouncements: Financial Accounting Standards Board (FASB) Statements and Interpretations, Accounting Principles Board (APB) Opinions and Accounting Research Bulletins (ARB's).

Accounting estimates: The preparation of basic financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the basic financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

Cash and cash equivalents: Cash and cash equivalents include temporary cash investments whose use is not limited or restricted. The Hospital considers all liquid investments with original maturities of three months or less at the date of issuance to be cash equivalents. Certain temporary investments internally designated as long-term investments are excluded from cash and cash equivalents.

Davis County Hospital

Notes to Basic Financial Statements

Note 1. Nature of Business and Significant Accounting Policies (Continued)

Patient receivables: Patient receivables where a third-party payor is responsible for paying the amount, are carried at a net amount determined by the original charge for the service provided, less an estimate made for contractual adjustments or discounts provided to third-party payors.

Patient receivables due directly from the patients are carried at the original charge for the service provided less amounts covered by third-party payors and less an estimated allowance for doubtful receivables based on a review of all outstanding amounts on a monthly basis. Management determines the allowance for doubtful accounts by identifying troubled accounts, by historical experience applied to an aging of accounts, and by considering the patient's financial history, credit history and current economic conditions. The Hospital does not charge interest on patient receivables. Patient receivables are written off as bad debt expense when deemed uncollectible. Recoveries of receivables previously written off are recorded as a reduction of bad debt expense when received.

Receivables or payables related to estimated settlements on various risk contracts that the Hospital participates in are reported as third-party payor receivables or payables.

Property taxes: The Hospital received approximately 4.06% and 4.08% of its financial support from property tax revenue in the years ended June 30, 2011 and 2010, respectively, which were used to support operations. The Hospital levies the tax in March of each year based on assessed valuation of property in the County as of the second proceeding January 1. Tax bills are sent by the County in August and the taxes are payable half on September 1 and March 1, and become delinquent after October 1 and April 1, respectively.

Property tax receivable is recognized on the levy or lien date, which is the date that the tax asking is certified by the County Board of Supervisors and is thereby an enforceable legal claim. The succeeding property tax receivable represents taxes certified by the Board of Supervisors to be collected in the next fiscal year for the purposes set out in the budget for the next fiscal year. By statute, the Board of Supervisors is required to certify the budget in March of each year for the subsequent fiscal year. However, by statute, the tax asking and budget certification for the following fiscal year becomes effective on the first day of that year. Although the succeeding year property tax receivable has been recorded, the related revenue is deferred and will not be recognized as revenue until the year for which it is levied.

Inventories: Inventories are valued at the lower of cost (first-in, first-out method) or market.

Assets limited as to use or restricted: Assets limited as to use or restricted include assets restricted by revenue bond ordinance, donor-restricted assets and assets set aside by the Board of Trustees for future capital improvements over which the Board retains control and may at its discretion subsequently use for other purposes.

Davis County Hospital

Notes to Basic Financial Statements

Note 1. Nature of Business and Significant Accounting Policies (Continued)

Capital assets: Capital assets are carried at cost or fair value if donated. Assets under capital lease obligations and leasehold improvements are depreciated over the shorter of the lease term or their respective estimated useful lives. Amortization on assets under capital leases is included with depreciation expense on owned assets. Depreciation is computed by the straight-line method over the estimated useful lives as follows:

	<u>Years</u>
Land improvements	10 - 25
Buildings, improvements and fixed equipment	5 - 40
Major moveable equipment	3 - 20

Donations of capital assets are reported at fair value as an increase in unrestricted net assets unless use of the asset is restricted by the donor. Monetary gifts that must be used to acquire property and equipment are reported as restricted net assets. The expiration of such restrictions is reported as an increase in unrestricted net assets when the donated asset is placed in service.

Deferred financing costs: Deferred financing costs include debt issuance costs which are being amortized over the term of the respective debt using bonds outstanding method.

Net patient service revenue: Net patient service revenue is reported at the estimated net realizable amounts from patients, third-party payors and others for services rendered including estimated retroactive adjustments under reimbursement agreements with third-party payors. Retroactive adjustments with third-party payors are accrued on an estimated basis in the period the related services are rendered and adjusted in future periods as final settlements are determined. Net patient service revenue is reported net of provisions for uncollectible accounts.

Operating income: The Hospital distinguishes operating revenue and expenses from nonoperating items. Operating revenue and expenses generally result from the primary purpose of the Hospital, which is to provide medical services to the region. Other operating revenue consists of rental income, grants, cafeteria sales and other miscellaneous services. Operating expenses consist of salaries and wages, employee benefits, purchased services and professional fees, depreciation, interest and supplies and other. All revenue and expenses not meeting these criteria are considered nonoperating.

The Foundation's other operating revenue primarily consists of donations received.

Tax revenue: Property taxes are recognized as assets in the period an enforceable legal claim to the assets arises and are recognized as revenue in the period for which the taxes are levied. Other county tax revenue is recognized as revenue when received by the Hospital. Property taxes that are not available for current year operations are shown as deferred revenue.

Davis County Hospital

Notes to Basic Financial Statements

Note 1. Nature of Business and Significant Accounting Policies (Continued)

Net assets: Net asset classifications are defined as follows:

Invested in capital assets, net of related debt – This component of net assets consists of capital assets, including any restricted capital assets, net of accumulated depreciation and reduced by the outstanding balances of any bonds, notes or other borrowings that are attributable to the acquisition, construction or improvement of those assets. If there are significant unspent related debt proceeds at year-end, the portion of the debt attributable to the unspent proceeds is not included in the calculation of invested in capital assets, net of related debt. Rather, that portion of the debt is included in the same net assets component as the unspent proceeds.

Restricted – This component of net assets consists of constraints placed on net assets through external constraints imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulations of other governments or constraints imposed by law through constitutional provisions or enabling legislation.

Unrestricted net assets – This component of net assets consists of net assets that do not meet the definition of “restricted” or “invested in capital assets, net of related debt” above.

The Hospital first applies restricted resources when an expense is incurred for purposes for which both restricted and unrestricted net assets are available.

Gifts, grants and bequests: Gifts, grants and bequests not designated by donors for specific purposes are reported as nonoperating revenue regardless of the use for which they might be designated by the Governing Board.

Compensated absences: Hospital policies permit most employees to accumulate paid time off benefits that may be realized as paid time off or, in limited circumstances, as a cash payment. Expense and the related liability are recognized as the benefits are earned, whether the employee is expected to realize the benefit as time off or in cash. Compensated absence liabilities are computed using the regular pay and termination pay rates in effect at the balance sheet date, plus an additional amount for compensation related payments such as social security and Medicare taxes computed using rates in effect at that date. Changes in the balance of compensated absences during 2011 and 2010 are summarized as follows:

	2011	2010
Balance, beginning	\$ 562,293	\$ 512,489
Current year additions	879,267	825,680
Current year usage	(860,385)	(775,876)
Balance, ending	<u>\$ 581,175</u>	<u>\$ 562,293</u>

Charity care: The Hospital provides care to patients who meet certain criteria under its charity care policy without charge or at amounts less than its established rates. Because the Hospital does not pursue collection of amounts determined to qualify as charity care, they are not reported as revenue. Charity care for the years ended June 30, 2011 and 2010 was approximately \$188,000 and \$75,000, respectively.

Davis County Hospital

Notes to Basic Financial Statements

Note 2. Net Patient Service Revenue

The Hospital has agreements with third-party payors that provide for payments to the Hospital at amounts different from its established rates. A summary of the payment arrangements with major third-party payors follows:

Medicare: The Hospital is designated as a critical access hospital. This designation provides for inpatient and outpatient services to be reimbursed on a cost basis methodology. The Hospital is reimbursed at a tentative rate with final settlement determined after submission of annual cost reports by the Hospital and audits thereof by the Medicare fiscal intermediary. The Hospital's Medicare cost reports have been finalized by the Medicare fiscal intermediary through June 30, 2010.

Medicaid: Inpatient and outpatient services rendered to Medicaid Program beneficiaries are reimbursed based upon a cost reimbursement methodology. The Hospital is reimbursed at a tentative rate with the final settlement determined after submission of annual cost reports by the Hospital and audits thereof by the third-party Medicaid fiscal intermediary. The Hospital's Medicaid cost reports have been finalized by the Medicaid fiscal intermediary through June 30, 2010.

Approximately 56% and 55% of net patient service revenue is from participation in the Medicare and state-sponsored Medicaid programs for the years ended June 30, 2011 and 2010, respectively.

The Hospital has also entered into payment agreements with certain commercial insurance carriers, health maintenance organizations and preferred provider organizations. The basis for payment to the Hospital under these agreements includes prospectively determined rates per discharge, discounts from established charges and prospectively determined daily rates.

Net patient service revenue is composed of the following for the years ended June 30, 2011 and 2010:

	2011	2010
Gross patient service revenue	\$ 25,506,172	\$ 24,075,455
Less discounts, allowances and estimated contractual adjustments under third-party reimbursement programs	6,372,415	6,507,028
Less provision for doubtful accounts	691,321	762,776
Net patient service revenue	\$ 18,442,436	\$ 16,805,651

Contractual adjustment expense for the years ended June 30, 2011 and 2010 includes the effect of a change in the estimate of the amount due to third-party payors. The effect of this change in estimate is a decrease in contractual adjustment expense of \$69,000 and approximately \$206,000 for the years ended June 30, 2011 and 2010, respectively, and is related to retroactive adjustments based on the final settlements of cost reports.

Davis County Hospital

Notes to Basic Financial Statements

Note 3. Deposits and Investments

Deposits:

Custodial credit risk is the risk that, in the event of a bank failure, a government's deposits may not be returned to it. The Hospital's deposit policy for custodial risk requires compliance with the provisions of state law.

The Hospital had no bank balances exposed to custodial credit risk at June 30, 2011. The Hospital's deposits in banks as of June 30, 2011 were entirely covered by federal depository insurance or the State Sinking Fund in accordance with Chapter 12C of the Code of Iowa. This chapter provides for additional assessments against the depositories to insure there will be no loss of public funds.

Investments:

The Hospital is authorized by statute to invest public funds in obligations of the United States government, its agencies and instrumentalities; certificates of deposit or other evidences of deposit at federally insured depository institutions approved by the Board of Trustees; prime eligible bankers acceptances; certain high rated commercial paper; perfected repurchase agreements; certain registered open-end management investment companies; certain joint investment trusts, and warrants or improvement certificates of a drainage district. The Hospital had no investments as of June 30, 2011 and 2010. Therefore, they are not subject to interest rate risk and concentration of credit risk.

Summary of carrying values:

The carrying values of deposits are included in the balance sheets as follows:

	2011	2010
Carrying value:		
Deposits	\$ 7,399,938	\$ 7,919,766
Other	1,072	1,122
	<u>\$ 7,401,010</u>	<u>\$ 7,920,888</u>
Included in the following balance sheet captions:		
Cash and cash equivalents	\$ 3,698,697	\$ 3,234,425
Assets limited as to use, restricted by bond agreement	1,435,050	2,276,858
Certificates of deposit	671,733	657,971
Assets limited as to use, board designated and donor restricted	1,595,530	1,751,634
	<u>\$ 7,401,010</u>	<u>\$ 7,920,888</u>

Davis County Hospital

Notes to Basic Financial Statements

Note 4. Patient Accounts Receivable

Patient accounts receivable as of June 30, 2011 and 2010 consisted of the following:

	2011	2010
Patients	\$ 3,417,711	\$ 3,653,896
Less allowance for doubtful accounts	382,000	459,000
Less estimated third-party contractual adjustments	655,000	611,000
	<u>\$ 2,380,711</u>	<u>\$ 2,583,896</u>

Note 5. Capital Assets

Capital assets activity as of June 30, 2011 and 2010 is as follows:

	Beginning Balance	Additions	Transfers and Disposals	Ending Balance
	<u>2011</u>			
Capital assets not being depreciated:				
Land	\$ 238,186	\$ -	\$ (23,001)	\$ 215,185
Construction in progress	174,211	3,154,107	(3,219,010)	109,308
Total capital assets not being depreciated	<u>412,397</u>	<u>3,154,107</u>	<u>(3,242,011)</u>	<u>324,493</u>
Capital assets being depreciated:				
Land improvements	1,382,378	257,155	(73,391)	1,566,142
Buildings	18,419,024	148,238	(374,634)	18,192,628
Fixed equipment	1,603,664	-	(97,551)	1,506,113
Major moveable equipment	5,247,118	3,015,147	(288,621)	7,973,644
Total capital assets being depreciated	<u>26,652,184</u>	<u>3,420,540</u>	<u>(834,197)</u>	<u>29,238,527</u>
Less accumulated depreciation:				
Land improvements	191,006	109,080	(72,523)	227,563
Buildings	6,662,148	964,204	(261,250)	7,365,102
Fixed equipment	1,309,180	28,162	(97,551)	1,239,791
Major moveable equipment	3,308,307	554,629	(288,621)	3,574,315
Total accumulated depreciation	<u>11,470,641</u>	<u>1,656,075</u>	<u>(719,945)</u>	<u>12,406,771</u>
Total capital assets being depreciated	<u>15,181,543</u>	<u>1,764,465</u>	<u>(114,252)</u>	<u>16,831,756</u>
Capital assets, net	<u>\$ 15,593,940</u>	<u>\$ 4,918,572</u>	<u>\$ (3,356,263)</u>	<u>\$ 17,156,249</u>

Davis County Hospital

Notes to Basic Financial Statements

Note 5. Capital Assets (Continued)

	Beginning Balance	Additions	Transfers and Disposals	Ending Balance
	2010			
Capital assets not being depreciated:				
Land	\$ 182,358	\$ 55,828	\$ -	\$ 238,186
Construction in progress	396,730	6,433,976	(6,656,495)	174,211
Total capital assets not being depreciated	579,088	6,489,804	(6,656,495)	412,397
Capital assets being depreciated:				
Land improvements	184,872	1,197,506	-	1,382,378
Buildings	12,944,331	5,511,616	(36,923)	18,419,024
Fixed equipment	1,498,347	105,317	-	1,603,664
Major moveable equipment	4,124,921	1,487,021	(364,824)	5,247,118
Total capital assets being depreciated	18,752,471	8,301,460	(401,747)	26,652,184
Less accumulated depreciation:				
Land improvements	146,928	44,078	-	191,006
Buildings	6,040,915	657,631	(36,398)	6,662,148
Fixed equipment	1,287,096	22,084	-	1,309,180
Major moveable equipment	3,343,017	330,144	(364,854)	3,308,307
Total accumulated depreciation	10,817,956	1,053,937	(401,252)	11,470,641
Total capital assets being depreciated	7,934,515	7,247,523	(495)	15,181,543
Capital assets, net	\$ 8,513,603	\$ 13,737,327	\$ (6,656,990)	\$ 15,593,940

Davis County Hospital

Notes to Basic Financial Statements

Note 6. Long-Term Debt

Long-term debt activity as of and for the years ended June 30, 2011 and 2010 is as follows:

	Beginning Balance	Additions	Deductions	Ending Balance	Due Within One Year
2011					
Long-term debt:					
Hospital revenue bonds, Series 1998 (A)	\$ 5,555,000	\$ -	\$ (300,000)	\$ 5,255,000	\$ 315,000
Hospital revenue bonds, Series 2009 (B)	7,195,000	-	(230,000)	6,965,000	240,000
Note payable, finance company (C)	-	1,544,280	(71,244)	1,473,036	263,336
Note payable, finance company (D)	-	360,000	-	360,000	40,000
Capital lease obligations (E)	996,384	16,000	(256,941)	755,443	194,331
	13,746,384	1,920,280	(858,185)	14,808,479	1,052,667
Less unamortized bond discount	202,512	-	(14,531)	187,981	-
	<u>\$ 13,543,872</u>	<u>\$ 1,920,280</u>	<u>\$ (843,654)</u>	<u>\$ 14,620,498</u>	<u>\$ 1,052,667</u>
2010					
Long-term debt:					
Hospital revenue bonds, Series 1998 (A)	\$ 5,840,000	\$ -	\$ (285,000)	\$ 5,555,000	\$ 300,000
Hospital revenue bonds, Series 2009 (B)	-	7,195,000	-	7,195,000	230,000
Capital lease obligations (E)	134,846	987,570	(126,032)	996,384	210,300
	5,974,846	8,182,570	(411,032)	13,746,384	740,300
Less unamortized bond discount	126,639	89,938	(14,065)	202,512	-
	<u>\$ 5,848,207</u>	<u>\$ 8,092,632</u>	<u>\$ (396,967)</u>	<u>\$ 13,543,872</u>	<u>\$ 740,300</u>

- (A) Hospital Revenue Bonds, Series 1998, originally aggregating \$8,300,000, were issued by the Hospital to finance building improvements. The bonds are payable through September 1, 2023, with interest coupons payable at March 1 and September 1 at annual rates varying from 5.100% to 5.625%. The bonds maturing on or after September 1, 2009 are subject to redemption by the Hospital on or after September 1, 2008, in whole or part, at a redemption price of 100% of principal plus accrued interest. The Bonds are collateralized by net revenue of the Hospital.
- (B) Hospital Revenue Bonds, Series 2009, originally aggregating \$7,195,000, were issued by the Hospital to finance building improvements. The bonds are payable through September 1, 2025, with interest coupons payable at March and September 1 at annual rates varying from 3.50% to 6.50%. The Hospital pledged to the owners of the Bonds all of its rights, title and interest in and to the net revenues from the Hospital on a parity basis with the Series 1998 Bonds, and funds held under the Indenture, in order to secure the payment of the Bonds.

The Hospital has pledged future net revenue to repay \$8,300,000 in the Hospital Revenue Bonds, Series 1998 and \$7,195,000 in the Hospital Revenue Bonds, Series 2009. Proceeds from the bonds were used to renovate and expand facilities of the Hospital. The bonds are payable solely from net revenues and are payable through September 2023 and 2025, respectively. Annual principal and interest payments on the bonds are expected to require less than 5% of annual net revenue. The total principal and interest remaining to be paid on the bonds is \$18,789,391. Principal and interest paid for the current year on the Series 1998 and 2009 Bonds and total net revenue of the Hospital were \$1,219,691 and \$18,914,417, respectively.

- (C) Note payable, due in monthly installments of \$29,848, including interest at 5.99% through June 2016, secured by equipment.

Davis County Hospital

Notes to Basic Financial Statements

Note 6. Long-Term Debt (Continued)

- (D) Note payable, due in annual installments of \$40,000, including interest at 0% through December 2020, secured by equipment.
- (E) At varying rates of imputed interest up to 10.06% maturing through 2015 and collateralized by leased equipment.

The bond agreements require that payments be made to a Sinking Fund in amounts sufficient to pay the principal of and interest due on the bonds when due. Sinking funds available for payment of maturing bonds amounted to \$1,435,050 and \$1,446,893 as of June 30, 2011 and 2010, respectively. The Series 1998 and Series 2009 bond agreements also require the Hospital to maintain debt service coverage ratios of at least 1.25 and 1.50, respectively.

The debt service requirements for the Series 1998 and 2009 Hospital revenue bonds and notes payable as of June 30, 2011, are as follows:

	Principal	Interest	Total to Be Paid
Year ending June 30:			
2012	\$ 858,336	\$ 742,746	\$ 1,601,082
2013	913,692	705,599	1,619,291
2014	956,775	661,632	1,618,407
2015	1,015,972	623,046	1,639,018
2016	1,005,302	590,838	1,596,140
2017-2021	4,337,959	2,461,039	6,798,998
2022-2026	4,965,000	1,007,955	5,972,955
	<u>\$ 14,053,036</u>	<u>\$ 6,792,855</u>	<u>\$ 20,845,891</u>

The following is a schedule by year of future minimum lease payments under the capital lease including interest together with the present value of the future minimum lease payments as of June 30, 2011:

Year ending June 30:	
2012	\$ 225,312
2013	221,231
2014	218,161
2015	159,878
Total minimum lease payments	<u>824,582</u>
Less amount representing interest	69,139
Present value of future minimum payments	<u>\$ 755,443</u>

Davis County Hospital

Notes to Basic Financial Statements

Note 6. Long-Term Debt (Continued)

The following is leased equipment by major class as of June 30, 2011 and 2010:

	2011	2010
Major moveable equipment	\$ 1,058,343	\$ 1,797,033
Less accumulated depreciation	290,929	817,500
	<u>\$ 767,414</u>	<u>\$ 979,533</u>

Note 7. Contingent Liabilities

Medical malpractice insurance:

The Hospital purchases medical malpractice insurance under a claims-made policy on a fixed premium basis. Accounting principles generally accepted in the United States of America require a health care provider to accrue the expense of its share of malpractice claim costs, if any, for any reported and unreported incidents of potential improper professional service occurring during the year by estimating the probable ultimate costs of the incidents. Based upon the Hospital's claims experience, management has determined that the accrual for such claims is not material to the financial statements.

Self-insurance:

Accrued expenses include an accrual for claims that have been incurred, but not reported for self-insured dental and vision benefits. Claims liabilities are re-evaluated periodically to take into consideration recently settled claims, frequency of claims and other economic and social factors. Changes in the balance of claims liabilities during 2011 and 2010 are summarized as follows:

	2011	2010
Balance, beginning	\$ 16,867	\$ 10,600
Current year claims and changes in estimates	68,673	41,725
Claim payments	(63,098)	(35,458)
Balance, ending	<u>\$ 22,442</u>	<u>\$ 16,867</u>

Laws and regulations:

The health care industry is subject to numerous laws and regulations of federal, state and local governments. Compliance with such laws and regulations can be subject to future government review and interpretation, as well as regulatory actions unknown or unasserted at this time. These laws and regulations include, but are not limited to, accreditation, licensure, government health care program participation requirements, reimbursement for patient services, and Medicare and Medicaid fraud and abuse. Recently, government activity has increased with respect to investigations and allegations concerning possible violations of fraud and abuse statutes and regulations by health care providers. Violations of these laws and regulations could result in exclusion from government health care program participation, together with the imposition of significant fines and penalties, as well as significant repayment for past reimbursement for patient services received. While the Hospital is subject to similar regulatory reviews, management believes the outcome of any such regulatory review will not have a material adverse effect on the Hospital's financial position.

Davis County Hospital

Notes to Basic Financial Statements

Note 7. Contingent Liabilities (Continued)

The Hospital has been named as a defendant in various legal actions arising from normal business activities in which damages in various amounts are claimed. The amount of ultimate liability, if any, with respect to such matters cannot be determined, but management believes that any such liability would not have a material effect on the Hospital's financial position.

CMS RAC Program:

Congress passed the Medicare Modernization Act in 2003, which among other things established a demonstration of The Medicare Recovery Audit Contractor (RAC) program. During fiscal year 2007, the RAC's identified and corrected a significant amount of improper overpayments to providers. In 2006, Congress passed the Tax Relief and Health Care Act of 2006 which authorized the expansion of the RAC program to all 50 states. CMS is in the process of rolling out this program nationally. As such, the Hospital may be subject to such an audit at some time in the future. The final impact of this program cannot be quantified at this time.

Health care reform:

As a result of recently enacted federal health care reform legislation, substantial changes are anticipated in the United States health care system. Such legislation includes numerous provisions affecting the delivery of health care services, the financing of health care costs, reimbursement of health care providers and the legal obligations of health insurers, providers and employers. These provisions are currently slated to take effect at specified times over approximately the next decade.

Current economic conditions:

The current economic environment presents hospitals with unprecedented circumstances and challenges, which in some cases have resulted in large declines in the fair value of investments and other assets, large declines in contributions, constraints on liquidity and difficulty obtaining financing. The financial statements have been prepared using values and information currently available to the Hospital.

Current economic conditions, including the rising unemployment rate, have made it difficult for certain of the Hospital's patients to pay for services rendered. As employers make adjustments to health insurance plans or more patients become unemployed, services provided to self-pay and other payers may significantly impact net patient service revenue, which could have an adverse impact on the Hospital's future operating results. Further, the effect of economic conditions on the state may have an adverse effect on cash flows related to the Medicaid program.

Given the volatility of current economic conditions, the values of assets and liabilities recorded in the financial statements could change rapidly, resulting in material future adjustments in investment values and allowances for accounts and contributions receivable that could negatively impact the Hospital's ability to meet debt covenants or maintain sufficient liquidity.

Davis County Hospital

Notes to Basic Financial Statements

Note 8. Pension Plan

Plan description:

The Hospital contributes to the Iowa Public Employees' Retirement System (IPERS), a cost-sharing multiple-employer defined benefit pension plan administered by the State of Iowa. Pension expense is recorded for the amount the Hospital is contractually required to contribute for the year. The plan provides retirement and death benefits, which are established by State Statute, to plan members and beneficiaries. The plan issues a publicly available financial report that includes financial statements and required supplementary information for the plan. The report may be obtained by writing to the plan at IPERS, P.O. Box 9117, Des Moines, Iowa 50306-9117.

Plan members are required to contribute 4.5% of their annual covered salaries and the Hospital is required to contribute 6.95% of annual covered payroll. Contribution requirements are established by state statute. The Hospital's contributions to the plan for the years ended June 30, 2011, 2010 and 2009 were approximately \$518,000, \$458,000 and \$405,000, respectively.

Note 9. Other Postemployment Benefits (OPEB)

Plan description and funding policy:

The Hospital sponsors a postretirement medical plan that provides post-termination medical insurance coverage for the participant and the participant's family through age 65. The employees eligible under this policy are all employees who terminate employment at or after age 62 with at least 4 years of service. Prior to the participants' age 65, the coverage shall be insured coverage providing a level of benefits reasonably comparable to the standard medical coverage the Hospital provides to all full-time employees. The plan coverage terminates upon the participant reaching Medicare eligibility (age 65).

The Hospital pays for all or a portion of active employees' coverage. The amount depends on whether single or family coverage is elected. Upon retirement, the retired participant continuing their coverage pays the premium including any increase in single premium after retirement. The required contribution is based on projects pay-as-you-go financing requirements. The Hospital made no contributions to the plan during the years ended June 30, 2011 and 2010.

Annual OPEB cost and net OPEB obligation:

The Hospital's annual other postemployment benefit (OPEB) cost (expense) is calculated based on the annual required contribution (ARC) of the employer, an amount actuarially determined in accordance to the parameters of GASB Statement No. 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover the normal cost each year and amortize any unfunded actuarial liabilities over a period not to exceed 30 years. The following table shows the components of the Hospital's annual OPEB cost for the year, the amount actuarially contributed to the plan, and changes in the Hospital's annual OPEB obligation:

	2011	2010
Annual required contribution	\$ 58,093	\$ 62,588
Interest on net OPEB obligation	3,048	1,447
Annual OPEB cost (expense)	61,141	64,035
Contributions made	-	-
Increase in net OPEB obligation	61,141	64,035
Net OPEB obligation, beginning of year	121,917	57,882
Net OPEB obligation, end of year	<u>\$ 183,058</u>	<u>\$ 121,917</u>

Davis County Hospital

Notes to Basic Financial Statements

Note 9. Other Postemployment Benefits (OPEB) (Continued)

The Hospital's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligations for fiscal year 2010 is as follows. This is the transition year of GASB Statement No. 45.

	Annual OPEB Cost	Percent of Annual OPEB Cost Contributed	Net OPEB Obligation
Fiscal year ended June 30:			
2011	\$ 61,141	- %	\$ 183,058
2010	64,035	-	121,917
2009	57,882	-	57,882

Funded status and funding progress:

As of July 1, 2008, the most recent actuarial valuation date, the plan was 0% funded. The actuarial accrued liability for benefits was \$696,571 and the actuarial value of assets is none resulting in an unfunded actuarial accrued liability (UAAL) of \$696,571. The covered payroll was \$7,115,857 and the ratio of the UAAL to the covered payroll was 9.8%. The results of the July 1, 2008 valuation were rolled forward to June 30, 2011.

Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality and the health care cost trend. Amounts determined regarding the funded status of the plan and the annual required contributions of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future.

Actuarial methods and assumptions:

The actuarial calculations are performed in accordance with the Frozen Entry Age Actuarial Cost Method as allowed under GASB Statement No. 45. The excess of the AAL over the actuarial value of plan assets is the Unfunded Actuarial Accrued Liability. The Unfunded Actuarial Accrued Liability is amortized over a maximum of 30 years in level dollar amounts on an open period amortization basis. The sum of the normal cost and the amortization of the unfunded actuarial accrued liability is the annual required contribution, which with interest at the valuation date, determines the annual OPEB cost.

Economic cost assumptions:

The rate at which projected cash flows are to be discounted is 2.5% based on estimated long-term investment return on the investments that are expected to be used to finance the payment of benefits.

Actuarial calculations reflect a long-term perspective that involves estimates of reported amounts and assumptions about the probability of events far into the future. Actuarially determined amounts are subject to continual revision as actual results are compared to past expectations and new estimates are made about the future.

Davis County Hospital

Notes to Basic Financial Statements

Note 10. Network Administration and Support Services Agreement

The Hospital has entered into an agreement with another health care organization to provide network administration and support services. Administration and support services fees of approximately \$233,000 and \$229,000 were incurred for the years ended June 30, 2011 and 2010, respectively.

Note 11. Governmental Accounting Standards Board (GASB) Statements and Pending Pronouncements

The Hospital implemented GASB Statement No. 59, *Financial Instrument Omnibus*, during the year ended June 30, 2011. The adoption of this Statement did not have a material effect on the financial statements.

As of June 30, 2011, the GASB had issued the following Statements not yet implemented by the Hospital. The Statements which might impact the Hospital are as follows:

GASB Statement No. 57, *OPEB Measurements by Agent Employers and Agent Multiple-Employer Plans*, issued January 2010, will be effective for the Hospital beginning with its year ending June 30, 2012. This Statement addresses issues related to measurement of OPEB obligations by certain employers participating in agent multiple-employer OPEB plans. GASB 57 amends GASB Statement No. 43, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*, and GASB Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*.

GASB Statement No. 60, *Accounting and Financial Reporting for Service Concession Arrangements*, issued November 2010, will be effective for the Hospital beginning with its year ending June 30, 2013. This Statement is intended to improve financial reporting by addressing issues related to service concession arrangements (SCAs), which are a type of public-private or public-public partnership. Specifically, this Statement improves financial reporting by establishing recognition, measurement, and disclosure requirements SCAs for both transferors and governmental operators, requiring governments to account for and report SCAs in the same manner, which improves the comparability of financial statements. This Statement also improves the decision usefulness of financial reporting by requiring that specific relevant disclosures be made by transferors and governmental operators about SCAs.

GASB Statement No. 61, *The Financial Reporting Entity: Omnibus an amendment of GASB Statements No. 14 and No. 34*, issued November 2010, will be effective for the Hospital beginning with its year ending June 30, 2013. This Statement is intended to improve financial reporting for a governmental financial reporting entity by improving guidance for including, presenting, and disclosing information about component units and equity interest transactions of a financial reporting entity. The amendments to the criteria for including component units allow users of financial statements to better assess the accountability of elected officials by ensuring that the financial reporting entity includes only organizations for which the elected officials are financially accountable or that are determined by the government to be misleading to exclude. The amendments to the criteria for blending also improve the focus of a financial reporting entity on the primary government by ensuring that the primary government includes only those component units that are so intertwined with the primary government that they are essentially the same as the primary government, and by clarifying which component units have that characteristic.

Davis County Hospital

Notes to Basic Financial Statements

Note 11. Governmental Accounting Standards Board (GASB) Statements and Pending Pronouncements (Continued)

GASB Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*, issued January 2011, will be effective for the Hospital beginning with its year ending June 30, 2013. This Statement is intended to enhance the usefulness of the Codification of Governmental Accounting and Financial Reporting Standards by incorporating guidance that previously could only be found in certain FASB and AICPA pronouncements. This Statement incorporates into the GASB's authoritative literature the applicable guidance previously presented in the following pronouncements issued before November 30, 1989: FASB Statements and Interpretations, Accounting Principles Board Opinions, and Accounting Research Bulletins of the AICPA's Committee on Accounting Procedure. By incorporating and maintaining this guidance in a single source, the GASB believes that GASB 62 reduces the complexity of locating and using authoritative literature needed to prepare state and local government financial reports.

GASB Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*, issued July 2011, will be effective for the Hospital beginning with its year ending June 30, 2013. This Statement is intended to improve financial reporting by providing citizens and other users of state and local government financial reports with information about how past transactions will continue to impact a government's financial statements in the future. This Statement provides a new statement of net position format to report all assets, deferred outflows of resources, liabilities deferred inflows of resources, and net position (which is the net residual amount of the other elements). The Statement requires that deferred outflows of resources and deferred inflows of resources be reported separately from assets and liabilities. This Statement also amends certain provisions of Statement No. 34, *Basic Financial Statements—and Management's Discussion and Analysis—for State and Local Governments*, and related pronouncements to reflect the residual measure in the statement of financial position as net position, rather than net assets.

GASB Statement No. 64, *Derivative Instruments: Application of Hedge Accounting Termination Provisions* (an amendment of GASB Statement No. 53), issued July 2011, will be effective for the Hospital beginning with its year ending June 30, 2012. This Statement clarifies that when certain conditions are met, the use of hedge accounting should not be terminated. Those conditions are: (a) the collectability of swap payments is considered to be probable, (b) the replacement of the counterparty or credit support provider meets the criteria of an assignment or in-substance assignment as described in the Statement, and (c) the counterparty or counterparty credit support provider (and not the government) has committed the act of default or termination event. When all of these conditions exist, the GASB believes that the hedging relationship continues and hedge accounting should continue to be applied.

The Hospital's management has not yet determined the effect these Statements will have on the Hospital's financial statements.

Davis County Hospital

Required Supplementary Information Budget and Budgetary Accounting

In accordance with the Code of Iowa, the Board of Trustees annually adopts a budget following required public notice and hearings for all funds. The annual budget may be amended during the year utilizing similar statutorily-prescribed procedures. The Hospital made one amendment to the budget during the year.

The following is a comparison to budget for the year ended June 30, 2011:

	Actual	Variance	Amended Budget
Amount to be raised by taxation	\$ 757,861	\$ 6,419	\$ 751,442
Other revenue (receipts)	19,031,842	1,120,708	17,911,134
Total revenue (receipts)	19,789,703	1,127,127	18,662,576
Expenses (disbursements)	19,995,646	(204,354)	20,200,000
Change in net assets	(205,943)	\$ 1,331,481	\$ (1,537,424)
Net assets:			
Beginning	10,714,095		
Ending	<u>\$ 10,508,152</u>		

Davis County Hospital

**Required Supplementary Information, Other Postemployment Benefit Plan
Year Ended June 30, 2011**

Schedule of Funding Progress

Fiscal Year Ended	Actuarial Valuation Date	Actuarial Value of Net Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded (Over-funded) AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll [(b-a)/c]
2011	07/01/2008	\$ -	\$ 696,571	\$ 696,571	- %	\$ 7,115,857	9.79%
2010	07/01/2008	-	696,571	696,571	-	6,524,202	10.68
2009	07/01/2008	-	696,571	696,571	-	5,908,802	11.79

NOTE: Fiscal year 2009 was the transition year for GASB Statement No. 45.

The information presented in the required supplementary schedule was determined as part of the actuarial valuation as of July 1, 2008. Additional information follows:

1. The cost method used to determine the ARC is the Frozen Entry Age Actuarial Cost method.
2. There are no plan assets.
3. Economic assumptions are as follows: health care cost trend rates of 6%; discount rate of 2.5%.
4. The amortization method is open period, level dollar basis.

Davis County Hospital

Net Patient Service Revenue

Years Ended June 30, 2011 and 2010

	2011		
	Inpatient	Outpatient	Total
Daily patient services:			
Medical and surgical	\$ 855,916	\$ 615,509	\$ 1,471,425
Swing-bed	602,250	-	602,250
	<u>1,458,166</u>	<u>615,509</u>	<u>2,073,675</u>
Nursing services:			
Operating and recovery rooms	1,304,887	1,769,471	3,074,358
Emergency room	24,227	2,945,533	2,969,760
	<u>1,329,114</u>	<u>4,715,004</u>	<u>6,044,118</u>
Other professional services:			
Laboratory	406,246	2,211,406	2,617,652
Central services and supplies	76,682	65,954	142,636
Electrocardiology	17,722	112,431	130,153
Radiology	429,784	4,021,298	4,451,082
Ambulance services	16	581,666	581,682
Labor and delivery	69,546	28,670	98,216
Pharmacy	909,628	2,128,825	3,038,453
Home health	-	103,659	103,659
Anesthesiology	61,427	197,387	258,814
Respiratory therapy	382,368	86,525	468,893
Physical therapy	367,077	935,562	1,302,639
Speech therapy	6,698	10,753	17,451
Electroencephalography	1,620	6,480	8,100
Long-term care	1,782,972	-	1,782,972
Nursery	52,930	-	52,930
Outpatient clinic	1,497	2,519,813	2,521,310
	<u>4,566,213</u>	<u>13,010,429</u>	<u>17,576,642</u>
	<u>\$ 7,353,493</u>	<u>\$ 18,340,942</u>	<u>25,694,435</u>
Less charity care			<u>188,263</u>
Gross patient service revenue			<u>25,506,172</u>
Contractual adjustments			<u>6,372,415</u>
Net patient service revenue before provision for uncollectible accounts			<u>19,133,757</u>
Provision for uncollectible accounts			<u>691,321</u>
Net patient service revenue			<u><u>\$ 18,442,436</u></u>

2010

Inpatient	Outpatient	Total
\$ 883,155	\$ 461,605	\$ 1,344,760
401,700	-	401,700
<u>1,284,855</u>	<u>461,605</u>	<u>1,746,460</u>
983,190	1,522,504	2,505,694
11,205	2,628,311	2,639,516
<u>994,395</u>	<u>4,150,815</u>	<u>5,145,210</u>
480,236	2,870,548	3,350,784
74,389	57,268	131,657
23,916	114,832	138,748
448,823	3,809,491	4,258,314
-	609,491	609,491
72,381	19,955	92,336
737,871	2,248,454	2,986,325
-	169,719	169,719
45,050	195,670	240,720
378,704	108,979	487,683
269,420	881,327	1,150,747
7,456	5,308	12,764
-	1,389	1,389
1,589,226	-	1,589,226
62,931	-	62,931
-	1,975,636	1,975,636
<u>4,190,403</u>	<u>13,068,067</u>	<u>17,258,470</u>
<u>\$ 6,469,653</u>	<u>\$ 17,680,487</u>	24,150,140
		<u>74,685</u>
		24,075,455
		<u>6,507,028</u>
		17,568,427
		<u>762,776</u>
		<u>\$ 16,805,651</u>

Davis County Hospital

Other Revenue

Years Ended June 30, 2011 and 2010

	2011	2010
Revenue for expenses of Home Health Care:		
Davis County	\$ 9,947	\$ 74,360
Iowa Department of Public Health	90,306	44,278
Other funding	114,519	116,249
Ambulance subsidy, Davis County	25,000	25,000
Cafeteria	90,298	71,756
Sale of supplies and drugs	950	612
Rent income	6,498	31,808
Purchase discounts	1,341	2,210
Other funding	133,122	166,125
	\$ 471,981	\$ 532,398

Davis County Hospital

**Operating Expenses
Years Ended June 30, 2011 and 2010**

	2011		
	Salaries	Other	Total
Nursing services:			
Medical and surgical	\$ 938,631	\$ 150,667	\$ 1,089,298
Emergency room	753,269	718,373	1,471,642
Operating and recovery rooms	240,816	491,105	731,921
Nursing administration	68,786	5,724	74,510
	2,001,502	1,365,869	3,367,371
Other professional services:			
Laboratory	223,007	432,436	655,443
Central services and supplies	-	185,295	185,295
Radiology	268,501	532,563	801,064
Ambulance	127,392	37,576	164,968
Obstetrics, labor and delivery	33,378	18,718	52,096
Pharmacy	159,695	838,075	997,770
Home health	236,651	58,604	295,255
Anesthesiology	-	199,765	199,765
Respiratory therapy	99,975	44,316	144,291
Physical therapy	-	606,166	606,166
Speech therapy	-	9,260	9,260
Electroencephalography	-	960	960
Nursery	7,090	-	7,090
Clinic	1,322,062	550,862	1,872,924
Nursing home	657,822	85,320	743,142
Medical records and library	284,614	62,068	346,682
	3,420,187	3,661,984	7,082,171
General services:			
Operation of plant	382,707	530,187	912,894
Dietary	277,379	349,822	627,201
Housekeeping	25,618	66,932	92,550
Environmental services	225,436	99,365	324,801
	911,140	1,046,306	1,957,446
Administrative services	1,412,014	1,394,145	2,806,159
Employee benefits	-	2,155,943	2,155,943
Depreciation and amortization	-	1,682,901	1,682,901
Insurance	-	119,570	119,570
	\$ 7,744,843	\$ 11,426,718	\$ 19,171,561

2010

Salaries		Other		Total
\$	922,209	\$	93,533	\$ 1,015,742
	713,864		662,122	1,375,986
	202,684		340,621	543,305
	91,637		1,604	93,241
	1,930,394		1,097,880	3,028,274
	134,723		652,006	786,729
	-		159,468	159,468
	267,293		646,234	913,527
	112,889		61,167	174,056
	42,518		12,732	55,250
	143,416		776,628	920,044
	251,302		63,665	314,967
	-		179,003	179,003
	126,252		52,651	178,903
	-		531,772	531,772
	-		9,508	9,508
	-		288	288
	8,263		-	8,263
	1,255,185		577,202	1,832,387
	648,846		75,456	724,302
	214,241		119,903	334,144
	3,204,928		3,917,683	7,122,611
	312,575		444,613	757,188
	299,702		237,802	537,504
	31,714		71,719	103,433
	275,639		96,996	372,635
	919,630		851,130	1,770,760
	1,133,516		1,159,759	2,293,275
	-		2,000,104	2,000,104
	-		1,106,110	1,106,110
	-		95,974	95,974
\$	7,188,468	\$	10,228,640	\$ 17,417,108

Davis County Hospital

**Patient Receivables and Allowance for Uncollectible Accounts
Years Ended June 30, 2011 and 2010**

Patient Receivables	2011	Percent to Total	2010	Percent to Total
Days since discharge:				
0 - 60	\$ 2,194,700	64.22%	\$ 2,461,187	67.36%
61 - 120	560,232	16.39%	414,120	11.33%
121 - 180	196,221	5.74%	241,539	6.61%
181 and over	466,558	13.65%	537,050	14.70%
	<u>3,417,711</u>	<u>100.00%</u>	<u>3,653,896</u>	<u>100.00%</u>
Less contractual allowances	<u>655,000</u>		<u>611,000</u>	
	<u>2,762,711</u>		<u>3,042,896</u>	
Less allowance for uncollectible accounts	<u>382,000</u>		<u>459,000</u>	
	<u>\$ 2,380,711</u>		<u>\$ 2,583,896</u>	

Allowance for Uncollectible Accounts

Balance, beginning	\$ 459,000	\$ 477,000
Provision for year	691,321	762,776
Recoveries of accounts previously written off	<u>150,033</u>	<u>113,400</u>
	<u>1,300,354</u>	<u>1,353,176</u>
Less accounts written off	<u>918,354</u>	<u>894,176</u>
Balance, ending	<u>\$ 382,000</u>	<u>\$ 459,000</u>

Davis County Hospital

**Inventories and Prepaid Expenses
Years Ended June 30, 2011 and 2010**

Inventories	2011	2010
Central stores	\$ 61,291	\$ 62,943
Pharmacy	130,626	129,588
Dietary	14,274	12,880
Office supplies	-	9,962
Floor supplies	152,625	125,538
Fuel oil	8,665	5,987
	<u>\$ 367,481</u>	<u>\$ 346,898</u>

Prepaid Expenses

Insurance	\$ 21,004	\$ 22,117
Service contracts	32,202	27,418
Dues	9,122	8,451
Maintenance and other	23,038	26,096
	<u>\$ 85,366</u>	<u>\$ 84,082</u>

Davis County Hospital

Officials

Year Ended June 30, 2011

Name	Title	Term Expires
Board of Trustees		
Tom Prosapio	Chairperson	2016
Kevin Cook	Vice-Chairperson	2012
Janis Wettrich	Secretary/Treasurer	2014
Leon Wilkinson	Member	2012
Anne Morgan	Member	2014
Russell Jarvis	Member	2016
Tami Weilbrenner	Member	2016

Hospital Officials

Deborah Herzberg	Chief Executive Officer
Gary Foll	Chief Financial Officer *
Debra Scott	Chief Operating Officer
Ronda Reimer	Chief Nursing Officer
Karoleen (Charlie) Hammel	Director of Organizational Excellence/Quality

* Effective September 22, 2011, this position is open.

Davis County Hospital

**Financial and Statistical Data
Years Ended June 30, 2011 and 2010
(Unaudited)**

	2011	2010
Patient days, exclusive of swing-bed:		
Medicare	842	855
Medicaid	77	103
Private and other	390	482
	1,309	1,440
Medicare and Medicaid percent	70.0%	67.0%
Percent of occupancy, acute	14.0%	16.0%
Discharges, exclusive of swing-bed:		
Medicare	258	266
Medicaid	33	45
Private and other	133	168
	424	479
Average length of stay in days	3.1	3.0

Davis County Hospital

Insurance Coverage Year Ended June 30, 2011 (Unaudited)

Regent Insurance Company (expires June 16, 2012)	\$35,662,190
Building and contents, fire and extended coverage (agreed amount, replacement cost) (All locations)	\$5,000 deductible
Earthquake (expires June 16, 2012)	\$39,981,296 \$50,000 deductible
Flood (expires June 16, 2012)	\$5,000,000 \$50,000 deductible
Business income and extra expense (expires June 16, 2012)	\$4,319,106
Accounts receivable (expires June 16, 2012)	\$250,000
General Liability - PIC Wisconsin (expires June 16, 2012)	\$1,000,000/\$3,000,000 No Deductible
Umbrella liability coverage - ProAssurance	\$2,000,000/\$2,000,000 \$10,000 Retained
Healthcare facility medical professional liability - ProAssurance	\$1,000,000/\$3,000,000
Excess liability coverage - ProAssurance	\$1,000,000/\$1,000,000 No Deductible
Owned automobiles - Regent Insurance Co. (expires June 16, 2012)	
Liability	\$1,000,000
Collision/comprehensive (\$1,000/\$500 deductible)	ACV
Uninsured/underinsured motorist (each)	\$1,000,000
Hired vehicle/nonowned automobiles liability	\$1,000,000
Boiler (Equipment Breakdown Coverage)	\$39,981,296
Comprehensive accident coverage	Deductible : Varies
Mechanical Breakdown Limit	
Travelers (policy expiration June 16, 2012)	\$1,000,000
Directors' and Officers' liability	\$10,000 deductible
Employment Practices Liability Coverage	\$1,000,000 \$15,000 deductible
United Fire and Casualty Company (continuous)	
Surety bonding (for LTC patient funds held by hospital)	\$10,000
Farm Bureau Financial Services (policy expiration April 1, 2012)	
Workers' Compensation	Statutory
Petroleum Marketers Mutual Storage Tank (expires March 25, 2012)	\$500,000/\$1,000,000
Financial Responsibility Program (Release/Aggregate)	\$10,000 deductible